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Role of the Public Sector in National
and Regional Development in the Context
of the Implementation of the Lagos Plan
of Action

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THE ROLE OF THE PUBLIC SECTOR IN NATIONAL AND REGIONAL DEVELOPMENT WITHIN THE CONTEXT OF THE LAGOS PLAN OF ACTION

by
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LC/NAIROBI

I. Introduction

1. The purpose of this paper is to introduce the topic for the Conference on "The Role of the Public Sector in National and Regional Development within the context of the Lagos Plan of Action". Since the details of each issue to be discussed have been covered elsewhere, this paper will aim exclusively at presenting only a framework within which the topic could be discussed meaningfully.

II. The Lagos Plan of Action

2. In July, 1979, the Assembly of Heads of State and Government of the Organization of African Unity adopted the "Monrovia Declaration of Commitment on the guidelines and measures for national and collective self-reliance in Economic and Social Development for the establishment of a New International Economic Order". The Heads of State and Government committed themselves individually and collectively to promote the economic and social development and integration of the African economies, with a view to achieving an increasing measure of self-sufficiency and self-sustainment;to promote the economic integration of the African region in order to facilitate and reinforce social and economic intercourse; and to establish national, sub-regional and regional institutions which will facilitate the attainment of objectives of self-reliance and self-sustainment. More specifically, they committed themselves to promote human resource development by starting to eliminate illiteracy; to put science and technology in the service of development; to implement completely the programmes for the United Nations Transport and Communications Decade for Africa; to achieve self-sufficiency in food production and supply; to realise the sub-regional and regional internally located industrial development; to co-operate in the field of natural resource control, exploration, extraction and use for the development of African economies for the benefit of the African peoples and to set up the appropriate institutionsto achieve

these purposes; to develop indigeneous entrepreneurship, technical manpower and technological abilities of the African peoples; to co-operate in the preservation, protection and improvement of the natural environment; to ensure that the development policies reflect adequately the African socio-cultural values in order to reinforce the African cultural identity; and to take into account the dimension of the future in the elaboration of development plans including studies and measure aimed at achieving a rapid socio-economic transformation of Africa.

3. In order to devise a concrete plan for the implementation of that Strategy, the Heads of State and Government held an extraordinary summit in Lagos, Nigeria, in April 1980, devoted exclusively to discussing economic development problems of Africa and adopted the Lagos Plan of Action for the Economic Development of Africa. The Lagos Plan was presented to the United Nations General Assembly at its Eleventh Special Session in September, 1980, and is now an integral part of the International Development Strategy for the Third United Nations Development Decade.

4. The Lagos Plan of Action was adopted by African Heads of State and Government against the background of the two decades of stagnation in outputs, worsening balance of payments caused by deteriorating terms of trade, increasing payments for the importation of high-level skills, capital goods, spare parts and equipment, raw material inputs, marketing,shipping and insurance services, widespread unemployment and mass poverty.

5. The Plan is designed to restructure the economy of Africa so that the economy could achieve national and collective self-reliance and self-sustaining development. It is based on an integrated approach to development, which covers different economic and social activities and takes into account the interdependence of these activities. The importance of involving all agents of development and change is therefore underscored by the Plan. These Agents include private enterprises, public enterprises, trade unions, chambers of commerce, universities and other institutions of learning and research.

III. The Characteristics of the African Economy

6. One major characteristic of the African economy is its unusual openness. It is a well-known fact that Africa is more dependent on exports of primary products than any other region of the world. The export share of Gross Domestic Product (GDP) in Africa is more than one-fifth (23 per cent) and has remained virtually so in the 1960's, 1970's and early 1980's. Furthermore, within African national economies, there is a predominance of foreign-based transnational corporations, which dominate activities in practically all sectors. Moreover, there is a shortage of scientific and technological manpower needed to undertake duties required to run modern industrial enterprises. In addition, income inequality is rampant, and appear, to be increasing.
Finally, African economies have relied heavily on foreign resources for their continued operation. Foreign "aid" and expatriate personnel have been a regular feature of African national economies.

7. These economic characteristics have rendered meaningful development impossible. The major aim of the Lagos Plan of Action is to restructure the African economy so as to eliminate these characteristics, as well as to pave the way for self-relying and internally-located development. One way to do this is to have a strong government participation in the economic affairs of the nation.

8. It is against the foregoing background as well as that provided in the Lagos Plan of Action that the role of the public sector, as one of the agents of development, is to be discussed and assessed.

IV. The Public Sector

Meaning of the "Public Sector"

9. Broadly defined, the public sector includes government ministries, and related service agencies, research and training institutions under the aegis of the government, service-oriented parastatals, business-oriented public corporations, etc.. Thus, the definition of "the public sector" can be all-embracing and broad. For the purpose of this conference, however, the definition adopted should include largely the traditional government ministries, particularly the civil service, as well as the parastatals. In other words the public sector is the one in which the government is directly involved in running and controlling the public enterprises and their activities such as those in agriculture, industry, commerce and trade, banking, finance, insurance, transport and communications, science and technology through Research and Development (R and D).

V. Historical Factors in the Growth Patterns and Functional Orientation of the Public Sector

10. Since the independence of most African countries twenty years ago, the public sector has grown in both scope and function. This increase was due to a number of reasons. First, as governments themselves grew, there was a natural corresponding increase in their services. Second, most African countries adopted measures to redress the past and colonial economic and social imbalances and consequently nationalized or took strong participation role in the economic sectors that were previously in private hands. These activities included both commercial and directly productive activities in such fields as manufacturing, transport, mining, and marketing. Third, most governments sought to deal with the problem of unemployment through expanding their activities in public services. Finally, most African governments sought to share certain economic activities with those in the foreign private sector through equity share capital, thus making certain corporations semi-public.

11. A World Bank study of seven African countries shows that, for these countries, the public sector employs between 40 and 74 percent of those recorded in paid employment and that the public sector employment has grown much faster than that of the private sector. (see Table I)

12. The government sector alone has grown very rapidly. A study of 21 African countries by the World Bank has revealed that spending on public administration and defence, which excepting education, are the largest components of the government sector, has increased faster than national output. (see Table 2). Similarly, the growth in expenditure on public education has also expanded very rapidly.

13. A number of historical and practical reasons account for the largeness of the public sector in African economies. Historically, and particularly during the post-war period, it was been believed in most developing countries that rapid economic growth and development could come largely through a very strong intervention and leadership of the public sector. The meagre skilled manppwer available was concentrated largely in those activities in the public sector. Directly or indirectly, resources for projects were dependent on government initiative, guidance and control. The government alone had access to vital information on technology, markets and financing. Finally, the government was better organized than the indigenous private sector. Indeed, the indigenous private sector was rarely, if at all, in a position to play an active role in development, particularly in the modern sector.

14. As a result of this historical situation, the ordinary person looked to government to take initiative, to lead the way, to influence and even to act forcefully in the process. The situation was rendered even more complex by the tradition which encouraged the paternalistic perception of government and leaders as the initiators of development moves. Consequently, the public sector was far ahead of the indigenous private sector in bringing about development.

15. Of course, changes have taken place in Africa during the last two decades of independence, but the situation outlined above has remained substantially the same, implying that the public sector would remain large. What follows then is to develop policies which would make the public sector more efficient and more development-oriented rather than concern ourselves with the reduction of its size.

VI. General Characteristics and Problems of African Public Enterprises, and what is expected of them as Agents in the implementation of the Lagos Plan of Action.

16. It has already been emphasized above that the African participation in the modern private sector during the pre-independence period was very rare. Indeed, the African role in the modern industrial sector was almost nil. But, after independence, matters changed somewhat. In their desire to gain a degree of control and management of their own economic destiny, many African countries instituted several measures. Many of them nationalized existing foreign-owned private enterprieses, particularly those in certain key sectors, such as the mineral, transport, public utilities and manufacturing industries. In other cases, the government negotiated with foreign companies certain agreements related to splitting shareholding of the assets between the government and the companies, so that mixed public-private enterprises were created. The third step was the allocation of substantial government resources to the management of these newly-acquired enterprises.

17. In taking these actions, the African countries hoped that the newly-acquired public enterprises would achieve certain goals such as to increase employment, to

deliver goods at low prices to certain groups, and to undertake investment decisions without due regard to economic and financial returns. Furthermore, these enterprises were expected to be self-financing as well as to be expanding rapidly so as to generate the need surplus for more investment. In this way, these enterprises were expected to be institutions for modernisation of the economy and of society. They were hoped to be centres for skilled labour formation and for managerial capacity development. In short, these public enterprises were expected to be the engine for development.

18. Some of these expectations have been realized. Cases of successful public enterprises abound all over Africa. Indeed, some nationalized enterprises are functioning profitably and efficiently, especially in the manufacturing and mining industries. In many instances, governments have been able to generate enough public funds and public agencies to make basic services, such as sanitation, modern medical care, and education, available to a good number of their citizens. Consequently, African consumers have come to expect these free services from their governments. And the governments have been put under pressure to accede to these expectations.

19. Similar successes have also been registered in the services sub-sector of the public sector, namely, the civil service itself. On becoming independent, most African countries had only a very small cadre of Africans in the core of civil service itself. The colonial civil service placed stringent barriers to accession of Africans to key positions in the government. However, with the attainment of independence, Africans were rapidly placed in all positions in the government service. Today, Africans run their governments successfully, despite normal problems facing all administrators. This is a success story which must be told.

20. Despite these successes, the public sectors low performance has been a source of concern for many African governments. The public enterprises have caused serious fiscal burdens to the governments. Most of them have operated on the verge of collapsing and have often had to be rescued only through governmental extra-budgetary allocations, transfers from the banks or surpluses from marketing organizations. Again, many of them do not have sufficient cash flows to cover their operations. In many African countries, the allocation of additional resources to maintain the parastatals has been a matter of heated debates in public fora.

21. Several factors account for the poor performance of these enterprises. First and foremost, the problem of acquiring the services of managerial and technical personnel has affected these public enterprises. Although these enterprises are supposed to hire staff autonomously, this is not practically true. Most personnel in managerial and technical positions come from the civil service. For example, budget account systems, budget analysts, auditors and accountants all generally come from the government. Consequently, the administrative procedures, tend to be the same as those in the government administration. The government administrative procedures and requirements are not necessarily the same as those needed to operate private enterprises.

22. The second main factor for the poor performance of parastatals relates to the degree of political considerations in their operations. Generally, the top management of these public enterprises consists of persons who were appointed on the basis of their political rather than managerial consideration. Often times, individuals who have either retired from high positions in the civil service, or who had failed to be re-elected in the political office have been rewarded with the

position of leadership in the parastatals. Needless to emphasize, but their pre-occupation has been with maintaining good public relations with the political leadership, rather than emphasize on the efficiency of operations of the enterprise.

23. To all these we can add the problem of scarcity of capital for operating these enterprises. Owing to the general proliferation of the public enterprises most of which came into existence at a relatively short period of time, these enterprises are not only undercapitalized but are also short of working capital.

24. These problems have attracted the attention of most African governments. In an effort to remedy the situation, many governments have resorted to establishing commissions to study the problems of the public sector and to offer appropriate recommendations. Some governments have even instituted permanent commissions under the office of the Head of State to be responsible for the parastated bodies. Following recommendations of these commissions, some governments have instituted measures to review the role of the public sector in their national development.

VII. Mutual Cooperation between Public and Private Enterprises in National Development.

25. From the foregoing discussion, it is clear that the public and private enterprises in African economies must have a symbiotic relationship. Both sectors must play their respective parts effectively in national development. More specifically, the role of the public sector in large-scale, long-term, low-rate-of-return and capital-heavy investment projects is indispensable. The sector must also necessarily be involved heavily in promoting and shaping the educational and training processes at all levels and in all directions.

The Private Sector, on its part, can also play a crucial role in the development of small-scale and quick-rate-of-return projects. The two sectors can therefore be mutually re-inforcing rather than antagonistic. This kind of relationship is what is called for in the Lagos Plan of Action.

TABLE I. PUBLIC SECTOR EMPLOYMENT AND GROWTH RATES, SELECTED COUNTRIES

Country	Year	Formal employment as a percentage of working age population	Public employment as a percentage of "formal" employment	"Formal" employment growth rates (percent)		
				Public	Private	Total
Ghana	1957		51.4	4.9	-2.2	2.3
	1972	10.1	73.9			
Tanzania	1962	6.3	27.0	10.7	-4.8	2.3
	1974		66.4			
Zambia	1976	14.2	71.5			
Ivory Coast	1970	10.2				
Kenya	1963		29.6			
	1977	12.4	41.7	6.0	2.4	3.7
Malawi	1968		33.4			
	1976	9.6	39.2	9.0	8.0	8.6
Uganda	1962		41.8			
	1970	5.9	42.2	4.0	4.8	4.5

SOURCE: World Bank, Accelerated Development in Sub-Saharan Africa: An Agenda for Action (Washington, D.C., 1980) p.41

TABLE: 2 THE GROWTH OF PUBLIC ADMINISTRATION AND DEFENSE RELATIVE TO GNP

Countries	Expenditures on public administration and defense as percentage of GDP (annual average 1970-79) b/	Average annual growth rates, 1970-79		
		Expenditure on public Administration and defense	Relative to GDP	Expenditure on public administration
Mauritania	18.0	13.9	1.8	12.1
Kenya	17.1	8.4	6.5	1.9
Sudan	16.1	4.5	4.3	0.2
Tanzania	14.9	10.2	4.9	5.3
Chad c	14.2	6.1	-0.2	6.3
Somalia c	13.7	6.5	3.1	0.2
Congo	12.7	2.3	2.9	-0.6
Botswana	12.1	16.3	13.5	0.5
Madagascar	11.5	0.2	0.3	-0.1
Benin d	11.0	4.8	3.3	1.5
Rwanda d	10.3	6.5	4.1	2.4
Lesotho	9.2	3.3	7.0	-3.7
Upper Volta	9.1	6.2	-0.1	6.3
Uganda	9.1	5.9	-0.4	6.3
Sierra Leone	8.3	9.6	1.6	8.0
Ivory Coast	8.1	8.9	6.7	2.2
Liberia c	8.0	6.7	1.8	4.9
Cameroon	7.1	6.2	5.4	0.8
Nigeria	6.4	13.3	7.5	5.8
Mauritius	4.7	12.9	8.2	4.7
Burundi	4.4	5.9	3.0	2.9
Mean (unweighted)	9.9	7.4	3.9	3.3

a. In descending order or proportion of expenditure devoted to public administration and defense.
b. Value added
c. 1970-78
d. 1972-79

Source: World Bank, Accelerated Development in Sub-Saharan Africa: An Agenda for Action (Washington, D.C.,) p.41